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Report of the Committee  
on Railroad Taxes...

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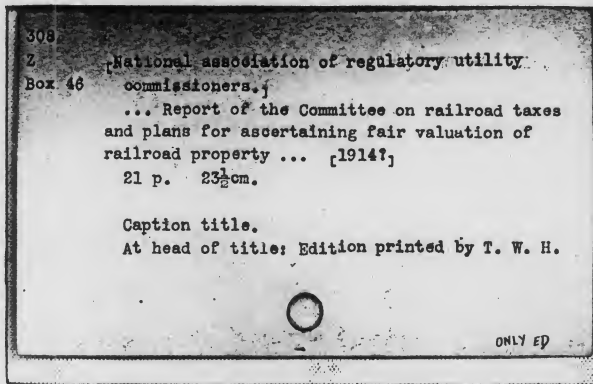
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REPORT OF THE COMMITTEE ON RAILROAD TAXES AND PLANS  
FOR ASCERTAINING FAIR VALUATION OF  
RAILROAD PROPERTY.

JOHN M. ESHLEMAN of California, Chairman.  
MILO R. MALTBIE of New York, First District.  
HALFORD ERICKSON of Wisconsin.  
LAWTON H. HEMANS of Michigan.  
ARTHUR A. LEWIS of Washington.  
GEORGE A. HENSHAW of Oklahoma.  
FRED J. MACLEOD of Massachusetts.

The Executive Committee of this Association requested your Committee to report on the work done during the year by the Interstate Commerce Commission in its valuation of railroads. While some of the matters covered herein may likewise be covered by the special Committee on physical valuation, still it has been thought advisable to go as fully as possible into the work of the Interstate Commerce Commission mostly by way of review in order that the status of this work might be presented.

Necessarily many of the matters herein discussed are questions of engineering, and the Committee acknowledges its indebtedness to the Engineering Department of the Railroad Commission of California, and particularly to Mr. Richard Sachse, Acting Chief Engineer of that Commission, for assistance in the analysis of the various forms adopted by the Division of Valuation of the Interstate Commerce Commission.

Since April 14th, when the Division of Valuation was organized as a part of the Interstate Commerce Commission, this division has taken the following important steps in getting the work of valuation under way:

- (1) The organization in May, 1913, of a Board of Engineers.  
THE ISSUANCE OF:
- (2) Valuation Circular No. 1, containing instructions as to the preliminary work to be done by carriers.
- (3) Specifications for maps and profiles.
- (4) Valuation Order No. 2, on the subject of "Abandoned Property."
- (5) Valuation Order No. 3, regulations to govern the reporting and recording of all extensions or improvements or other changes in physical property of every common carrier.
- (6) Valuation Order No. 4, on the subject of the Inventory of Material and Supplies.
- (7) First tentative draft of instructions for road and track field parties.
- (8) First tentative draft of instructions for building field parties.
- (9) First tentative draft of instructions for bridge field parties.
- (10) Classification of investment in road and equipment of steam roads.
- (11) Forms Nos. 7 and 8 and 10 to 50, inclusive, being appraisal and inventory forms according to the I. C. C. Classification of Accounts, as follows:

- D. V. Form No. 7—General blanket form—not applicable to any particular account.
- " " " 8—General blanket form—not applicable to any particular account.
- " " " 10 to 16, inclusive—covering I. C. C. Acct. No. 2, Land for Transportation Purposes.
- " " " 17—Summary sheet of I. C. C. Accounts 1 to 77, inclusive.
- " " " 18—I. C. C. Account No. 1—Engineering.
- " " " 19—I. C. C. Account No. 3—Grading.
- " " " 20—I. C. C. Account No. 5—Tunnels and Subways.
- " " " 21—I. C. C. Account No. 6—Bridges, Trestles and Culverts—metal bridges and combination trusses.
- " " " 22—I. C. C. Account No. 6—Bridges, Trestles and Culverts—masonry culverts.
- " " " 23—I. C. C. Account No. 6—Bridges, Trestles and Culverts—pile and frame trestles.
- " " " 24—I. C. C. Account No. 6—Bridges, Trestles and Culverts—pile and timber culverts.
- " " " 25—I. C. C. Account No. 8—Ties.
- " " " 26—I. C. C. Account No. 9—Rails.
- " " " 27—I. C. C. Account No. 10—Other Track Material, frogs, switches and crossings.
- " " " 28—I. C. C. Account No. 10—Other Track Material, splice bars, spikes, bolts, tie plates, etc.
- " " " 29—I. C. C. Account No. 11—Ballast.
- " " " 30—I. C. C. Account No. 12—Track laying and surfacing.
- " " " 31—I. C. C. Account No. 13—Right of Way Fences.
- " " " 32—I. C. C. Account No. 14—Snow and sand fences and snow sheds.
- " " " 33—I. C. C. Account No. 15—Crossings and Signs—grade crossings.
- " " " 34—I. C. C. Account No. 15—Crossings and Signs—over-grade and under grade crossings.
- " " " 35—I. C. C. Account No. 15—Crossings and Signs—signs.
- " " " 36—I. C. C. Account No. 16—Station and Office Buildings.
- " " " 37—I. C. C. Account No. 17—Roadway Bldgs.
- " " " 38—I. C. C. Account No. 18—Water Stations.
- " " " 39—I. C. C. Account No. 19—Fuel Stations.
- " " " 40—I. C. C. Account No. 27—Signals and Interlockers—interlockers.
- " " " 41—I. C. C. Account No. 44—Shop Machinery.
- " " " 42—I. C. C. Account No. 51—Steam Locomotives.
- " " " 43—I. C. C. Account No. 52—Other Locomotives.
- " " " 44—I. C. C. Account No. 53—Freight Train Cars.
- " " " 45—I. C. C. Account No. 54—Passenger Train Cars.
- " " " 46—I. C. C. Account No. 55—Motor Equipment of Cars.
- " " " 47—I. C. C. Account No. 56—Floating Equipment.
- " " " 48—I. C. C. Account No. 57—Work Equipment—Cars.
- " " " 49—I. C. C. Account No. 57—Work Equipment—Miscellaneous land equipment.
- " " " 50—I. C. C. Account No. 57—Work Equipment—floating work equipment, derricks, dredges, pile drivers, etc.

- (12) The organization and putting out of field parties and the starting of actual survey work in the field on the following railroads:  
 Norfolk Southern Railroad Company,  
 Atlanta, Birmingham & Atlantic Railroad Co.,  
 Kansas City Southern Railway Company,  
 New Orleans, Texas & Mexico Railroad Company,  
 Texas Midland Railroad Company,  
 The San Pedro, Los Angeles & Salt Lake R. R. Co.

It is the expressed intention of the Government to survey this year the following roads:

Boston & Maine Railroad Company,  
 A portion of the Cleveland, Cincinnati, Chicago & St. Louis Railway Company,  
 Chicago & Eastern Illinois Railroad Company,  
 Elgin, Joliet & Eastern Railway Company,  
 Central of Georgia Railroad Company,  
 Chicago & Northwestern Railway Company (South from Peoria),  
 Great Northern Railway Company (branches in North Dakota),  
 Western Pacific Railway Company.

It is also suggested that the following roads may also be taken up this year:

New York, New Haven & Hartford Railroad Co.,  
 Philadelphia, Baltimore & Washington R. R. Co.,  
 Pittsburg & Lake Erie Railroad Company,  
 Minneapolis, St. Paul & Sault Ste. Marie Railway Company,  
 Chicago, Milwaukee & St. Paul Railway Company (Puget Sound portion).

From the list of orders and instructions issued it will appear that the Interstate Commerce Commission thus far has confined itself almost exclusively to the organization of what might be called the technique of this work. No final decisions as to its attitude on questions of principal have yet been announced. The unearned increment, going concern value, good will, development cost, abandoned property, depreciation, actual cost as opposed to book charges, operative and non-operative property, the "railroad value" of rights of way, are but a few of the things as yet unsettled. Neither has the Commission as yet laid down any definitions of the terms "original cost to date," "cost of reproduction new," and "cost of reproduction less depreciation." These are probably the three most important elements upon which the engineers will be required to find and they are all required to be listed on the Commission's valuation forms. It would seem that confusion will inevitably result unless clear cut definitions of these terms, which shall be uniform in all cases, shall be laid down. Different carriers and different appraisers place widely different interpretations on the meaning of these terms.

Likewise, it must be apparent that at least some of these questions cannot finally be answered by engineers, appraisers and accountants engaged in the valuation work, as they are essentially composites and result from the exercise of judgment on the part of those authorized by law finally to decide. Thus it is certainly true that the Commission, and perhaps finally the courts, will be called upon to fix the proper definition of many of these terms.

Preliminary to our discussion of the various details of the work of the Division of Valuation during the year, it is well for us to point out that a great difficulty is encountered at the very outset by reason of the fact that these terms have not been defined. However, this should not interfere with the assembling of physical data, the existence of which is unaffected by opinions either of engineers or commissions. What portion of the value of a railroad shall be ascribed to the dirt in a fill does not affect the number of yards of dirt and other material in such fill.

Some of these important matters will be further discussed after we have taken up seriatim and analyzed the steps taken by the Commission.

#### 1. ORGANIZATION OF THE BOARD OF ENGINEERS.

Five engineers were appointed by the Commission to take charge of this work under a director of valuation, the Honorable Charles A. Prouty. The Nation is divided into five valuation districts and one of the five engineers in charge of the valuation assigned to each.

The states of Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, Pennsylvania, Maryland, New Jersey, Delaware, Virginia, West Virginia and North Carolina are included in District No. 1, presided over by Mr. E. F. Wendt, with headquarters at Washington.

The states of Ohio, Indiana, Kentucky, Tennessee, South Carolina, Georgia, Alabama, Mississippi and Florida are included in District No. 2, presided over by Mr. H. M. Jones with headquarters at Chattanooga.

The states of Michigan, Wisconsin, Minnesota, Iowa, Illinois, Arkansas and Louisiana are included in District No. 3, presided over by Mr. W. D. Pence with headquarters at Chicago.

The states of North Dakota, South Dakota, Nebraska, Colorado, Kansas, Missouri, Oklahoma and Texas are included in District No. 4, presided over by Mr. J. S. Worley with headquarters at Kansas City.

The remainder of the Nation, including the states of Montana, Wyoming, Idaho, Nevada, Utah, New Mexico, Arizona, Washington, Oregon and California, is included in District No. 5, presided over by Mr. R. A. Thompson with headquarters in San Francisco.

Working in accordance with a resolution of this Association passed at the last session, an advisory committee representing the states has been selected as follows:

*District No. 1.* F. G. MacLeod, Massachusetts.  
E. C. Niles, New Hampshire.  
M. R. Maltbie, New York.

*District No. 2.* R. H. Burr, Florida.  
C. M. Candler, Georgia.  
E. W. Doty, Ohio.

*District No. 3.* Clifford Thorne, Iowa.  
Lawton T. Hemans, Michigan.  
Halford Erickson, Wisconsin.

*District No. 4.* W. D. Williams, Texas.  
J. M. Atkinson, Missouri.  
Geo. A. Henshaw, Oklahoma.

*District No. 5.* John M. Eshleman, California.  
H. F. Bartine, Nevada.  
Clyde B. Aitchison, Oregon.

#### 2. VALUATION CIRCULAR NUMBER 1.

##### INSTRUCTIONS AS TO PRELIMINARY WORK TO BE DONE BY CARRIERS.

The ostensible purpose of this circular was to explain to the carriers what the Commission intends them to do in preparing their part of the work of valuation, especially concerning the assembling of maps, profiles and other valuation data. Railroads with a gross income not exceeding \$100,000 annually are excused from preparing the information required by this circular. It would seem that the issuance of this circular should much facilitate the preliminary work of the valuation corps.

#### 3. SPECIFICATIONS FOR MAPS AND PROFILES.

This so-called map order was the first specific order issued by the Commission and was sent to the carriers in January, 1914, to become effective February 1, 1914.

The order prescribes specifications for maps and profiles and in an appendix gives examples of rights of way maps, profiles and station plats in the form desired by the Commission.

This order led to a serious difference of opinion between the Government and the carriers, and it is worthy to be noted that the carriers maintained most of their contentions.

Prior to the issuance of the map order of February 1, 1914, the Government on August 1, 1913, had issued a tentative map order which led to a number of hearings and discussions and resulted in the specific order here discussed. The discussions made it clear that much field work on the part of the railroad companies would be avoided if the Government would furnish copies of its own field notes to the railroad companies. These companies in turn agree to furnish to the Government blue prints of their existing maps, marking thereon appropriate locations of structures of more recent construction.

The part of the order prescribing that all maps and profiles shall be made by hand or by a lithographic process, approved by the Commission, on the best grade of tracing cloth provoked most of the opposition of the carriers. It was maintained that such a requirement would result in an enormous expenditure by the railroad companies and that the Government should be satisfied with blue prints or negatives from which white prints could be made at any time. It cannot be determined from the records available to your Committee whether or not the Government has receded from its original demands in this regard. It seems clear to us, however, that for permanent records tracing cloth only should be considered the proper material. It is uniformly reported by engineers that blue prints and negatives not only deteriorate rapidly but are quite unsatisfactory for reproduction purposes; furthermore, it is impossible to note thereon the constantly occurring changes that must be recorded.

Maps, profiles and plans are the very foundation upon which each appraisal of the physical property of a railroad must necessarily rest. No effort within reason should be spared to make such records reliable and permanent, and it is our opinion that anything less than the specifications prescribed by the Government in its map order of February 1, 1914, will be very detrimental and will largely defeat the object sought to be obtained.

#### 4. VALUATION ORDER NUMBER 2.

##### ABANDONED PROPERTY.

It is sometimes contended by the carriers that abandoned property is property which the carrier no longer owns or as to which

it no longer claims ownership. It is not our understanding that it is the intention of the Interstate Commerce Commission to have the definition so limited. Abandoned property consists of property withdrawn or retired from service. A building owned by a carrier and standing upon land owned by the same carrier, and once used in its transportation business by the carrier, is abandoned if it is no longer in use for transportation purposes or purposes incidental thereto. Operative property which has become non-operative by reason of disuse properly should be considered abandoned property, for it certainly is abandoned for the purposes for which the carrier is chartered. It makes very little difference, however, if definitions are carefully made, and if it is known just what is meant by the term "abandoned property" no confusion will result. But if the definition of this term is left to the discretion of the engineer making the appraisal of the company of course much confusion will arise. The final valuation of a property of a carrier, in our opinion, unquestionably should not include property which is non-operative unless it is necessarily held for operative purposes in the immediate future. It is our belief that careful descriptions should be required by the Commission of all property of a doubtful status so that the Commission can determine whether such property should be included in the final valuation figures, and a determination of this question be not left to the individual opinions of different engineers who in one case might make one disposal and in a like case make a different disposal of property similarly affected.

#### 5. VALUATION ORDER NUMBER 3. REGULATIONS TO GOVERN THE REPORTING AND RECORDING OF ALL EXTENSIONS OR IMPROVEMENTS OR OTHER CHANGES IN THE PHYSICAL PROPERTY OF EVERY COMMON CARRIER.

It is the intent of Valuation Order No. 3 to prescribe the methods of reporting and recording in a uniform way the extensions, improvements and other changes, including acquisitions of physical property, with special reference to the valuation now being made.

The regulations included in this order were adopted by the Commission after discussion with the carriers and several state commissions. We believe that these regulations are complete and necessary and will serve a very useful purpose.

The order that each extension or improvement or other change in the property of a common carrier shall be covered by author-

ity issued by an executive or other responsible officer of the carrier seems especially important, as is the requirement that detailed cost records with unit analyses shall be kept. The order does not require addition and betterment reports for any railroad for which the Government has not started the valuation work during the preceding year; but all companies will be required to keep their records of addition and betterment work and have extensions in such shape as will permit of the ascertainment of such information desired as to unit costs. We understand that there is still considerable opposition on the part of the carriers to these regulations, but we do not believe this order should be modified.

#### 6. VALUATION ORDER NUMBER 4. INVENTORY OF MATERIALS AND SUPPLIES.

This order provides for the making of an inventory of all materials and supplies as of June 30th of each year, beginning with June 30, 1914.

This order has likewise been objected to by the carriers, although we do not understand the ground for such objection as it is almost a universal practice to make such inventory at the end of each fiscal year. Such an inventory will save the engineer making a valuation much field work and avoid the omission or duplication of many small items of property carried in stock and stored in material yards.

#### 7. FIRST TENTATIVE DRAFT OF INSTRUCTIONS FOR ROADWAY AND TRACK FIELD PARTIES.

In our opinion these instructions are the most important of any yet issued by the Commission. They were the subject of much correspondence, prior to their issuance, between the Commission, the carriers and the state commissions. The instructions appear to be sufficiently broad in general to allow of a certain latitude in their interpretation which is desirable.

A number of subjects, however, are not touched upon in the instructions, the handling of which by the field parties will be of considerable importance in the final result of valuation. The more important we think it wise to call to the attention of the Association.

#### a. NON-OPERATIVE PROPERTY.

This has already been discussed with reference to abandoned property, but we think that careful details should be made by the engineers as to all property not actually used or necessary in the operation of the railroad. Field parties should be instructed to enumerate and list such property with a careful description of its status.

#### b. DEPRECIATION

This subject, which of course is of great importance, is only very slightly touched upon in the instructions. It is our understanding that the final determination as to the depreciated value of the carriers' property will not be left for the decision of the field parties.

In face of the strong contention made by many railroads to the effect that there is no such thing as depreciated value and that the present value of the physical property equals 100% of the reproduction cost new, we should be very careful in treating this subject. It would seem essential that the engineers in the field should note in their field books and records the condition of all items inventoried and that definite rules should be given for estimating depreciation. The age of the various units should be determined from the records and not estimated from inspection. While depreciation cannot be determined solely from the age of the units involved, yet this has an important bearing and should be noted together with the actual condition so far as the one inspecting can determine. The condition as actually found in the field should always be noted and used as a check against office records.

The instructions that the assistant field engineer shall make notes showing "the repairs necessary to structures" seems to us to be practically valueless. Not only would intelligent compliance with the order demand a great deal of time and labor, but the result would be dependent to an unusually large degree on the individual opinion, knowledge and experience of the inspector.

The same is true to a like degree in respect to the general instruction that assistant field engineers shall determine "renewals which should be made."

While your Committee does not feel it necessary to set out fully its ideas on the subject of depreciation, yet inasmuch as this is destined to be one of the fiercely controverted issues in valuation we think it is wise to call to the attention of the Interstate Commerce Commission the necessity of securing its data in such a way that a proper determination of this issue shall not be prejudiced. We do not believe that ultimately depreciation can be calculated exactly by mathematical formulae and computations. Depreciation is a physical condition and might be broadly defined, we think, as the lessening of the value of property from physical causes. It has no relationship to the lessening of the value of property from economic causes which are unrelated and unaffected by physical depreciation. Two aspects of depreciation are often confused, one an engineering question and the other a question of accounting. From the engineering aspect we get light upon depreciation by considering it as a condition at a given time of a piece of property as compared to new. The bookkeeping aspect has to do with the setting up of a bookkeeping method for the purpose of accumulating a fund which in a given time on a straight line, curve or other formula will accumulate a certain amount of money. One deals with a theoretical condition the other with actual. Whenever an attempt is made to determine the reproduction cost less depreciation we of necessity must follow the condition per cent idea and deal with the actual.

At the threshold of this great work it seems to your Committee that all confusion possible should be avoided. The Government of the United States has started under a Federal statute to do certain things. Its lawfully constituted agents have been instructed to ascertain certain facts upon the ascertainment of which facts certain conclusions will be reached. In a rate fixing inquiry certain equitable considerations should always be before the tribunal empowered to act. Rates should be imposed which as a system will return to the carrier an amount which will pay all the expenses of performing its service, give it an earning upon the value of its property and return it a sufficient amount in stated periods so that when its property shall be worn out in the service of the public its capital shall have been returned to it. The amount of return of the capital in any stated period must be such that at the going out of use of the property the owner shall be re-imbursed therefor. Starting with a new property, it might well be that on a perfectly equitable and logical

basis of return to the carrier sufficient to re-imburse such carrier for its property when worn out, at any particular time, there might have been returned in the unit installments more or less than the actual physical depreciation which has taken place in the property; and it likewise might be true that computations made from general data would return to the owner of one property the entire value of such property before it went out of use, while in another case under dissimilar physical conditions the property might be retired before its value had been returned to the owner. We are fearful that very often we lose sight of the result in contemplation of the method. The determination of depreciation is the result of sound judgment by one in possession of the facts surrounding the physical condition of the property involved. Therefore, we believe it wise that the greatest care be taken in determining all of the factors which enter into the final result and that upon these factors the Commission with the assistance, of course, of its competent engineers determine this question.

Our suggestion is that "condition of property" should be made the subject of more complete and definite instructions to the engineers.

#### C. MATERIALS AND SUPPLIES ON HAND.

No instructions are given as to the handling of stores and supplies. A great deal of material will be found alongside the tracks and in material yards which is not listed in the companies' inventory, and which, if not appraised and inventoried while going over the line cannot be traced from office records.

The compliance by the carriers with Commission's Valuation Order No. 2, requiring the inventory of materials and supplies, will obviate most of the difficulties.

It seems also that the condition of the stores and supplies should be recorded by the field parties.

#### D. WORK UNDER CONSTRUCTION.

Instructions should be given field parties as to proper method for reporting work in actual construction and in progress.

#### E. VALUATION DIVISIONS.

No instructions are given parties as to the segregation of field notes as to corporate ownership, states, counties, municipalities,



valuation sections, main and side tracks and such other divisions and segregations as may appear necessary or desirable. We assume that the Commission has in mind such instructions as they are, of course, essential.

#### f. LEASED PROPERTY AND OWNED PROPERTY.

In our opinion instructions should be given to the field parties to list separately leased from owned properties so that proper differentiations can be made.

#### g. SOLIDIFICATION OF ROAD-BED.

No instructions are given for differentiating between seasoned and new road-bed. It seems that this should be done as very often an appreciation exists in seasoned road-bed over new road-bed.

#### h. ROADS AND TRAILS.

The instructions, in our opinion, should make mention of how the field parties are expected to handle the inventory of roads and trails constructed or improved by railroad companies or contractors in connection with the construction of new railways. In one case the California Commission found that over \$700,000 was spent by a railroad prior to the beginning of actual construction in the building of roads and trails which were necessary to enable the contractors to get their force and equipment to the work. This important item should be covered somewhere in the instructions.

#### i. MEANS OF TRANSPORTATION.

Field parties should be required to make notes as to the means of transportation used in connection with the construction of the road. This is a similar suggestion to the last one made, but it should be ascertained on the ground if possible whether roads existed at the time of the beginning of the construction or had to be constructed.

#### j. GENERAL INSTRUCTIONS.

If it is proposed to dispose of the important item "condition of property" in a paragraph, we would suggest that the instruc-

tions should be more detailed and more definite. As a basis for discussion we suggest the following which is in line with the work done by the California Commission:

"The assistant field engineer shall make notes of the present general condition of the property as well as the condition of the units which make up the whole. He shall note dates of manufacture and installation of materials and structures, repairs and renewals which should be made, the extent of wear on track material, estimated age of structures and materials where actual age cannot be determined. He shall also note standard of maintenance in comparison with new construction, and shall from this data and any other obtainable evidence be able to gather in the field, state what part or percentage of the useful life of the property, in its present service, yet remains, and what items will have a value when the useful life of the property as a whole is ended. These notes shall be complete enough to make it possible to differentiate between functional depreciation, deferred natural depreciation and the depreciation which is normally taken care of by seasonal repairs and renewals."

#### 8. FIRST TENTATIVE DRAFT OF INSTRUCTIONS FOR BUILDING FIELD PARTIES.

These instructions appear to be very complete and satisfactory and we have no comments to make thereon.

#### 9. FIRST TENTATIVE DRAFT OF INSTRUCTIONS FOR BRIDGE FIELD PARTIES.

These instructions also appear to be full and satisfactory and your Committee has no criticism to make except again to call attention to the comments we have made on abandoned property. This comment also applies to the preceding subdivision.

#### 10. CLASSIFICATION OF INVESTMENT IN ROAD AND EQUIPMENT OF STEAM ROADS.

This classification of investment in road and equipment supersedes the classification of expenditures for road and equipment, first revised issue effective July 1, 1907, with the supplement thereto effective July 1, 1908, and also the classification of expenditures for additions and betterments, first revised issue effective July 1, 1910. It also supersedes conflicting instructions contained in Accounting Bulletin No. 8.

This new classification differs so materially from the older accounting instructions superseded by it that we believe it is worthy the careful consideration of this Association. We believe as a whole it is a distinct advance over the older classifications. New accounts have been provided for investments in several classes

of property which under former classifications were included in other accounts.

Concise definitions and instructions appear in the general introductory instructions to the classification which if strictly followed in the valuation work will, in our opinion, do away with much confusion and clear up much ambiguity which might otherwise exist. The terms "construction," "original road," "original equipment," "road extensions," "equipment," "fixed improvements," "additions" and "betterments" are clearly defined. The definition of "cost" merits special attention. It is as follows:

"Costs shall be actual money costs of the carrier. Where a portion of the funds expended by the carrier has been obtained through donations by states, municipalities, individuals, or others, no deductions on account of such donations shall be made in stating the costs. Contributions for joint expenditures should not be considered as donations. The carrier's proportion only of the cost of joint projects, such as the construction of jointly owned tracks and elimination of highway crossings at joint expense, shall be included in these accounts."

This definition is at least ambiguous. In assuming to treat the question of donations it is by so much an advance over the old system. But a careful analysis shows that this definition will have to be modified else abuses will be possible.

In the classification of Income, Profit and Loss and General Balance Sheet Accounts for Steam Roads, effective July 1, 1914, under credits to "Profit and Loss," Account 606—"Donations," reads as follows:

"This account shall include amounts, creditable to surplus, of cash or its equivalent in estimated money value at the time of acquisition of lands or other property donated by individuals or companies for the construction or acquisition of property. It shall also include donations made by individuals and companies in connection with the construction of new lines for the purpose of compensating the carrier for loss anticipated during the early period of operation."

Under this definition, a carrier which has received a piece of real estate, for example, as a donation appraises such real estate, charges such appraised value to capital account and credits the same amount to surplus. The net result is that the carrier's surplus from which dividends may be declared is augmented by all of such donations. At least this is the interpretation that is being placed upon this account by accountants. The net effect, in our opinion, of this definition here considered and the definition from Classification of Income, Profit and Loss and General Balance Sheet Accounts referred to, upon the valuation work is illustrated as follows:

When it is desired to secure the cost under the first definition that cost will be made up of two elements, first, the money actually expended by the carrier from its own funds, and, second, the money actually expended by the carrier from cash donations, while in the case of a carrier which has received property donations the cost will appear to be only the money expended from its own funds. It may be that taking all of the accounts together this ambiguity is cured, but it is the opinion of your Committee that the definition we are here discussing should be revised so that the cash equivalent of donated property shall be included in the sum which goes to make up "cost."

The accounts also provide that in certain cases additions and betterments may be charged as operating expenses. If it is to be assumed that a company is entitled to a return on the fair value of its property and this fair value is to be effected by the reproduction cost, then it would mean that if any additions and betterments are charged as operating expenses and therefore be entitled to pay for them out of earnings, it would likewise have the same property items included when a reproduction value is made.

These new accounts are very valuable in prescribing the bases of charges to be shown in the carriers' accounts. We believe that all charges on the books of the carrier should be based on actual cost in money or proper appraised value of donations at the time of their receipt and not on any fictitious values of mere intercorporate and book transactions. These accounts quite properly provide that the money value of a consideration given by a carrier for property when such consideration is not in money shall be charged and the actual consideration described in the record in sufficient detail to identify it. This requirement is of special importance in connection with the cost of transportation which is destined to be one of the very important controverted points in these valuations. Although it has been the practice of the carriers to transport company materials at estimated cost, yet now it is being insisted that commercial freight rates should apply.

This question is one of profound importance and we suggest the propriety of this Association carefully considering it

#### 11. INVENTORY AND APPRAISAL FORMS.

It appears that the Commission has thus far issued 42 appraisal forms covering 26 of the accounts corresponding to the

new classification of investment in road and equipment of steam roads. It is necessarily impossible to discuss in detail these various forms. We suggest, however, that the adoption of general forms, such as the Commission's forms Nos. 8 and 9, while they will simplify clerical and office work, will not be in the interest of accuracy as a whole. The more that is left to the discretion of the individual appraisers the less uniformity will result. Definite instructions should be given in all cases where possible to the end that uniformity shall result. The more general the terms the less accurate the information.

Certain general comments we think properly should be made.

The forms call for entries in three columns headed "Original Cost to Date," "Cost of Reproduction New" and "Cost of Reproduction less Depreciation." Before any intelligent entries can be made in these columns it is absolutely essential that the definition of these three terms be given, and no specific definitions have been given to the engineers so far as our information goes of these terms. It is necessary to suggest that on these definitions the entire value of the valuation work may depend. We assume the term "Original Cost to Date" is intended to agree with the general instructions in the new classification of investment in road and equipment of steam roads, as defined on pages 9 to 14. There is nothing in the valuation forms, however, to confirm such an understanding. As the forms stand it is possible to interpret the term "Original Cost to Date" as intended to cover the original cost plus all additions, betterments and maintenance charges. Unless specific instructions are given to those making the appraisal there is danger that these terms shall be so interpreted.

A clean cut definition of the term "cost of reproduction new" is just as essential. As the term stands it is not clear, for instance, whether a company which has second-hand rails in its tracks should show those rails in this column at the reproduction cost of second-hand rails or new rails. We assume that what is desired to be ascertained is the cost to reproduce an item of property in the condition in which it was acquired, but this is not made plain in the form.

In the valuation work of some of the commissions, these terms have been defined with some care. The California Commission has adopted definitions which are adhered to in all valuation cases. While not contending that these definitions are the best that can be had, for the purpose of giving a basis for discussion we submit them. These definitions are as follows:

"The term 'original cost' means the original book cost and is defined as the actual expenditures chargeable to capital account in accordance with the Interstate Commerce Commission's classifications, in cash or its equivalent in terms of cash, by the public utility for its operative property as of the date of the valuation."

"The term 'reproduction cost' is defined as the estimated cost in cash of acquiring the operative right of way and other operative real estate and of reproducing, in the condition in which it was acquired, the other physical property of the public utility as of the date of the valuation; to which are added overhead expenditures for engineering, law, interest and other similar items."

"The term 'reproduction cost less depreciation' is defined as the reproduction cost less the diminution in the value of the physical elements of the property due to use, age, obsolescence, inadequacy and other causes, this diminution being called 'depreciation,' and plus the increase in the value of the physical elements of the property due to age and other causes, this increase being called 'appreciation.'"

It is worthy of note that nowhere in the Interstate Commerce Commission's valuation forms is there made any provision to show allowances in the "reproduction cost" and the "reproduction cost less depreciation" for contingencies. We think that this should be taken care of in some manner.

## 12. VALUATION FIELD WORK.

The Government has organized a number of field parties which are now at work on several railroads throughout the United States. The field notes of these parties are being furnished to the carriers whose properties are being inventoried. When this arrangement was discussed before the Valuation Board in Washington, the representatives of this Association suggested the advisability of the Interstate Commerce Commission furnishing copies of its field notes to the state commissions, in whose territory the Government's work was being done. No definite conclusions were reached and the Government is not now furnishing this information to the states.

The Valuation Act requires that whenever the Commission shall have completed the tentative valuation of the property of any common carrier, and before such valuation shall become final, the Commission shall give notice among others to the governor of any state in which the property so valued is located, stating the value placed upon the several classes of property of said carrier, and shall allow 30 days within which to file protests of such valuation with the Commission. If no protest is filed within the time allowed, such valuation shall become final as of the date thereof. It will readily appear that it is impossible even to make the most cursory examination of the underlying data of any large valuation within the 30 days allowed by the Act. We have no doubt that some, if not all, of the states before

accepting the Interstate Commerce Commission's results as final will desire to make a very careful study of such valuations. We suggest that it would be a very great aid to the states involved if copies of the field notes were furnished to the representatives of the states as well as to the carriers.

### 13. THE WORK DONE BY THE CARRIERS THROUGH THE PRESIDENTS' CONFERENCE COMMITTEE.

A large committee representing railroad interests has been formed, called the Presidents' Conference Committee. This Committee is divided into three groups—the eastern, western and southern groups—with counsel, engineering committees, a general secretary, and permanent group of engineers, equipment officers, a land committee, and committee on the preparation of financial histories and accounts. This committee, shortly after the instructions to field and government parties were issued, gave out its own field instructions to the railroad field parties and the “pilots” accompanying the government field parties. These instructions are in considerably greater detail than those issued by the Government. Instructions to office and field engineers and all other interested parties relative to the study of hidden and extraordinary quantities and of special features of construction not visible in the field inspection have been compiled in the most exhaustive and detailed form and sent to all carriers in the United States with the recommendation that each company issue general instructions and orders to all of its employees on these subjects.

The committee has also compiled a large number of cost data collection forms. These are compiled in accordance with the Interstate Commerce Commission's Classification for Road and Equipment Accounts, and enumerate every possible item of cost and value that may be considered in valuation work.

One of the most interesting documents issued by the Presidents' Conference is that entitled, “Instructions to Office and Field Engineers and all Other Interested Parties Relative to the Study of Hidden and Extraordinary Quantities and Special Features of Construction not Visible on Field Inspection.” In this the committee points out several hundred “invisible and hidden” items of construction and expense. Some of these are as follows: Extra watchman; switch tenders; signal men employed during construction; buildings, bridges or structures

moved or torn down during construction; effects of erosion; special assessments against washouts, landslides, fires, wrecks, injuries to persons during construction; equipment lost or destroyed during construction; new lines or structures begun or not completed; construction of improvements on which work was suspended and then resumed; temporary leases of property to permit of construction; temporary yards for storage of construction material; snow sheds taken down and abandoned.

We merely call attention to the activity of the Presidents' Conference to show the importance which is attached to this valuation work by the roads themselves. It may be well expected that nothing will be left undone by the representatives of these great enterprises to bring about a valuation as favorable to their contentions as is possible. We have already referred to the contention of the carriers with reference to depreciation and also with reference to transportation charges of men and material. It cannot be doubted that the alert and intelligent representatives of the roads will see to it that every fact favorable to their properties is given due prominence. It is plainly apparent that the carriers do not consider that the effect of this valuation work will be seen alone in rates but it is also quite likely that a basis of valuation for possible sales to the Government may be contemplated.

In making up this report your Committee has been handicapped by lack of time at the disposal of its members and likewise by its inability to get together and discuss important questions involved. We have limited its scope purposely to what may be called merely an analysis of what has been done rather than an attempt to criticize with great care the work accomplished. In this we have felt that we were complying with the desires of the Executive Committee. We understand that quite recently the Valuation Board has revised some of its forms and has adopted many improvements in these methods. These changes are of too recent date to be available for this analysis. We have outlined what we think some of the problems to be more that discussion might be provoked with its attendant benefits than that anything should be finally settled. We realize that this work is in good hands and we also realize that the Commission and those in charge of its Valuation Division must reach arithmetical results and that any discussion of fundamental theories does not dispense with the necessity of reaching conclusions which must be numerically expressed.

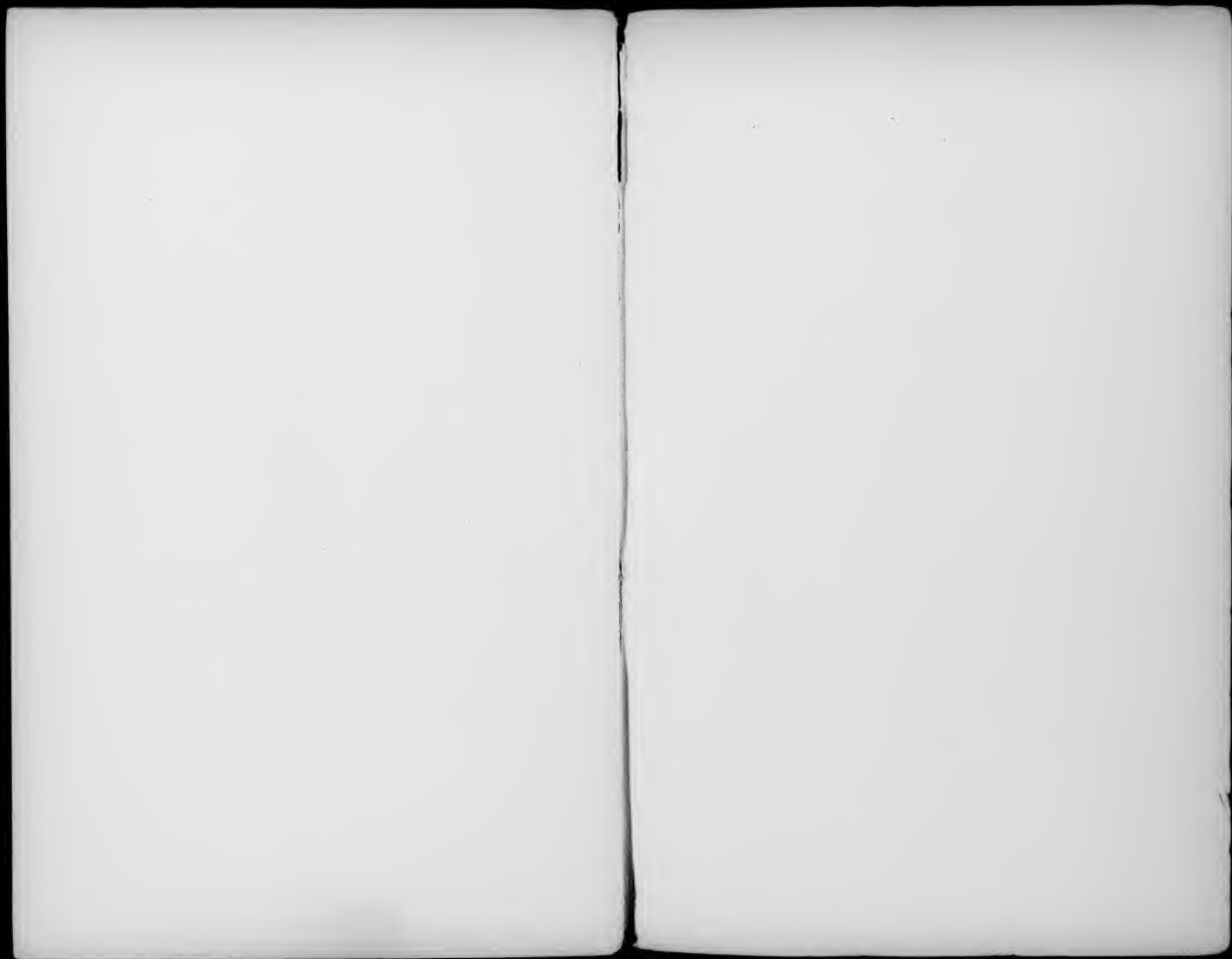
The question of depreciation and the controversy over "conditional per cent," the proper treatment of abandoned property, the disposition of donations, the proper charge for the transportation of men and materials, the correct definition of the various engineering terms, such as "cost of reproduction," etc., are matters that cannot be decided in any off-hand way. The members of your Committee have their individual opinions on these matters which will be expressed when this and the report of the Valuation Committee are considered. We respectfully suggest that the reports of these two committees be considered together. We make no positive recommendations because we do not believe it is within our province so to do. The Interstate Commerce Commission has indicated its willingness and desire to consult with this Association and the various state commissions in this tremendously important work, but in the final analysis the Interstate Commerce Commission is the one to decide and not this Association. We do believe, however, that the interests of the several states is at least as great, if not as direct, as the interest of the carriers and we commend the work of the Advisory Committee on Valuation and believe that this committee should be continued and that it should keep in close touch with the work of valuation as it proceeds to the end that the states may be sufficiently informed to make intelligent objections to any findings made by the Commission, as is allowed by law, when such findings are announced and to lend advice from time to time as the work progresses.

Further than this we make no recommendations, other than that the work of the states and the advisory committee representing such states should be prosecuted in the most friendly and co-operative spirit and not with any attitude of antagonism. We believe that those framing the statute under which alone the Commission can act were not as well informed on the problems to be met as might have been desirable, and we suggest the necessity of a study of the statute both by the representatives of the states and the Interstate Commerce Commission with a view to such recommendations to Congress by way of suggested amendments as we believe will be found imperative as the work proceeds. It is our belief that the work mapped out in the statute is impossible to be accomplished in its entirety, but we further believe, proceeding under this statute, the Interstate Commerce Commission will develop the difficulties of the plan. While we are not pessimistic as to the value of this work, still we believe

it will not meet with the expectations of those who framed the statute under which the work was undertaken. And we most strongly urge the necessity, both on the part of the Interstate Commerce Commission and the states, of being awake to the program of the carriers involved to lay a foundation for proceedings in court which may ultimately vitally affect both regulation, while regulation exists, and public ownership should the Government find it necessary to enter into the ownership of the railroads of this country. The owners are entitled, while private ownership exists, to fair treatment and a reasonable earning, and if the railroads shall become the subject of purchase or condemnation they are likewise entitled to a fair price for their properties. But there are many contentions now uniformly advanced by the carriers which, in our opinion, are unfair to the public and which must be intelligently met by the representatives of the public. If this is not done inevitably the great intelligence together with the preparedness of the representatives of these many millions will in our opinion unquestionably lead to a final determination of this valuation inquiry detrimental to the public and unduly beneficial to the carriers.

Respectfully submitted,

JOHN M. ESHLEMAN,  
Chairman.



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**END OF  
TITLE**